

THE U.S. NEWS WASHINGTON LETTER

A Private Weekly Report and Forecast From U.S. News & World Report

Friday, April 15, 1977

Dear Subscriber:

Coming up: long, lively battles over trade and Government regulation.
The two issues are related -- they both affect the prices you must pay.
Affect inflation too. Here is a two-stage look at how they'll be resolved.
Short answer: With great difficulty, for Carter intends to "hang tough"
against intense pressure from industry and labor to protect their interests.

First, trade -- the President will not please "protectionist" groups.
Shoes are the tip-off. The International Trade Commission recommended
import quotas to stem the flow of low-cost goods from South Korea, Taiwan.

Carter rejects that idea -- he prefers voluntary marketing agreements
which he has promised to negotiate by June. Chances are he'll succeed --
he has leverage with those countries which depend on the U.S. for survival.

Manufacturers and unions are banking on Congress to overrule Carter --
it has 90 legislative days to act, meaning 4 to 5 months of lobbying time.

But Congress won't do it -- this from a well-placed source at the ITC.
And that will set the stage for Carter victories on other important products.

Such as sugar. A proposed 4.4 million short-ton annual quota would up
the price 2.5¢ per pound, a sock to the public of about \$660 million a year.

And color TV's. The ITC backs a 20% tariff, responding to its mandate
to weigh injury to the industry only, but it has advised Carter on the side
that every job created by the tariff would cost consumers about \$100,000.

However, a Customs Court order that duties be put on electronic goods
from Japan means TV prices could rise anyway since importers must post bonds.

Ahead: a row over beef imports from countries like Canada, Australia.

Now, regulation: Government trustbusters are trying to trim it to size.

It's happening at the Justice Department's busy Antitrust Division --
an all-out effort to get agencies to end "stupid" rules like no-backhauling,
one that says trucks in interstate commerce must sometimes come home empty.
It's a "horrible example" that has stuck, although other bad ones have not.

Example: Elimination of set commissions on the New York Stock Exchange.
Antitrust Division efforts mean a \$180 million a year saving for investors.

The transportation industry is the primary target of this assault --
a railroad reform law passed by Congress, and an airline bill still pending.
The idea of both is to encourage competition, keep customer costs in line.

As with trade, there's a storm of protest from both industry and labor.

But the Government will press on, says the official who runs the show.

Why transportation? "Monopoly isn't a major threat. So, why regulate?"

Also -- more data there to point up flaws in the argument for regulations.

What about environmental protection, job safety, health restrictions?

A candid reply: "We tend to hit issues from an economic standpoint.

It's hard to put lung disease, industrial mishaps into an economic framework."

The rebate flop is an embarrassment to Carter, although some observers say it proves his flexibility, his willingness to shift direction in a storm. And the economy has shown more zip than expected, a strike against rebates. Still, another rebuff after Sorenson and the fizzle on wage-price powers.

Now the focus will shift toward more permanent tax relief for Americans. But no quick action is likely. The Republican alternative to rebates was a permanent rate reduction. Carter's veto threat will keep it in limbo, however. He is planning lower individual rates and business tax sweeteners but only as part of an overall tax-reform plan that he'll unveil next fall.

Before that, Congress will extend for another year the "Ford" tax cut, increase the standard deduction, and mop up loose ends in a catchall bill.

Will the rebate's demise hurt or help the economy? All in all, helps, by removing a worry. Many business people thought it would be inflationary, held back on some investments as a result. Now they'll have one less reason. The sluggishness in the pace of business investing remains the biggest drag.

Another drag: Questions on the inflationary impact of the energy plan. A gradual phase-in and offsetting rebates will minimize that, prevent any price explosion. It will add less than half a percent to prices over 3 years. That, according to Data Resources Inc., a non-Government forecasting firm.

Forecast: A fight soon over transport of LNG -- liquified natural gas. Big tankers are being built to carry it to the United States for offloading, and that has environmentalists ready to unleash a strident "anti" campaign.

They fear explosions in the event of a tanker accident in U.S. ports. Some LNG carriers call at our ports now, and are treated much like a pariah. No wonder, one estimate says a blast could cause as many as 100,000 deaths.

But you should weigh this, for perspective: All known safety devices are being built into the tankers -- double hulls, collision-avoidance gear. Why import LNG at all? We need it, domestic supplies don't fill our needs.

You'll be hearing more and more of energy economics. Good reason too.

There are no cheap or easy solutions, and the cost implications boggle. Coal? Capital investment to meet 1985's expected output, \$22 billion, and that is about four times the present level of investment in this fuel.

Pipe natural gas from Alaska? Price tag runs as high as \$10 billion. If ships are used, a cost of \$1.2 billion -- not counting terminals and such.

Plants to convert coal to synthetic gas? Costly -- \$1 billion or more. We would need scores of them: higher consumer prices implied down the line.

Nuclear? Billions, billions. A light water reactor's cost can total \$2 billion alone. Upshot of all this? New orders for equipment producers, but stunning pressure on capital markets, and higher fuel costs for John Q.

Drought report: Plentiful food supplies ahead in spite of water lack. Farmers intend to plant as much of the major food crops as they did in 1976, more or less, according to the latest Government survey. No big shortages. Livestock and poultry will be plentiful. And the fruits and vegetables too.

But not so good, however, for many farmers and business in dry areas. Government loans to farmers and local businesses amounting to \$1.2 billion are available to help save food production, but only for losses over 20%.

Our man who accompanied Ag Secretary Bergland on a tour to California found farmers irrigating full blast in some areas to recoup their losses.

The food price outlook? Due to climb 4 to 6% in this current year. Mainly due to inflation. Individual fruits and vegetables up in some areas.

Should you invest money in solar energy? Most analysts tell us "no." Not for the short-term, at any rate -- not a case of jump in and get rich. Solar is still a long shot in the energy stakes behind coal, gas, oil. One Wall Streeter, asked if people should buy solar stocks, had this reply: "Sure, if the investor is willing to wait 10 years before he sees a return." Few companies are into sun power alone -- most do other things too. That's true of small firms and bigs as well -- Exxon, Rockwell, United Tech.

Making solar energy economic to use is the challenge, a major problem. At present solar competes with other energy sources only in heating water. Equipping a home for sunpower can run into big money, unless the owner is able to do a lot of work on his own, to cut costs of labor and materials. Even then, solarizing requires a backup system in all but sunniest climes. But more solar houses, offices are on the way -- no doubt about that. And look at this: The Energy Research and Development Admin. is announcing a \$10 million plan to put solar hot-water heaters in hotels, motels, homes. Experts in this field, including those at ERDA, urge people with the itch to install a system at time of construction, not later -- saves on expense. Not a great deal, however -- you're still talking about as much as \$20,000.

Inflation: As it heads higher, new questions about controls -- a fear that the U.S. will see a double-digit price burst leading to a new freeze. No serious thought is being given to controls. Not now, not by Carter. Nixon's dramatic wage-price freeze in 1971 was based on legal authorization that has since expired. The appraisal here is that Mr. Carter would not act without first getting approval of Congress, something he doesn't plan to do. Don't rule out a crackdown in 1978 if the inflation wave gains force. The president of a large company remarked privately: "Controls? Inevitable."

Looking for a large used car? Buy quick, because prices will take off in the aftermath of President Carter's energy message to Congress next week. His proposed tax on larger new cars will tend to raise large used-car prices while his rebate on small new cars will depress the cost of small used autos.

Got an idea for making Christmas lights safer? Uncle Sam's interested. Same for other yuletide displays -- the Consumer Product Safety Commission is soliciting suggestions from the public: CPSC, 1111 18th, NW, D.C. 20207.

Surviving relatives of deceased servicemen, note: Government now plans to pay less for transport of bodies from VA hospitals to places of burial. The rule is not yet in effect, so you have time to make your position known. Write before Apr. 29 to the Veterans Admin., 810 Vermont, NW, D.C. 20420.

Government is promoting exports of U.S. breeding stock. A new booklet from the U.S. Dept. of Agriculture tells you how to get in on the action -- "Suggested Procedures for Exporting Breeding Cattle and Swine." To get it, write Foreign Agricultural Service, USDA, Wash., D.C. 20250. No charge.

An alert for people who operate jukeboxes and other music machines: You'll have to pay royalties to copyright owners under rules planned by the U.S. Copyright Office -- the expected start-up time later this year. To be heard, address General Counsel, Copyright Office, Wash., D.C. 20559.

Golfers, a suggestion: If you want to settle disputes over regulations, tournament records, whatever -- a handy \$1 pocket-size book does it for you. "1977 Golf Guide," from Joe Gambatese, 7119 Exfair Rd., Bethesda, Md. 20014. Some hints for the "duffers," too -- that you can take a look at on the sly.

Expect a more aggressive Federal Trade Commission -- next four years.
One reason why: A new chairman there April 21, one Michael Pertschuk, an agile staffer for the Senate Commerce Committee -- restless, proconsumer.
Another reason: Pertschuk's a get-going guy, hobnobs with Ralph Nader, will seek to make an imprint -- he's miles removed from the somnolent types that Nader's young Raiders found when they stormed the agency in the '60s. (Raiders walked into one office, found a lawyer sleeping under a newspaper.)

Look what FTC is into now, even before its new chairman arrives:
A probe of local medical associations, to find out if their practices thwart doctors from work in HMO's, low-fee Health Maintenance Organizations. Medical-society records have been subpoenaed for examination at FTC.
The suspicion? That HMO participation by M.D.'s is being openly obstructed in the South, Midwest, other areas to keep local M.D. charges at high levels.
We predict more digging, then settlement-by-guideline. The regulators will demand guarantees of no boycotts of HMO doctors, a move FTC will hail as one that prevents market restraints, allows the HMO movement to expand.

Federal regulators have two other targets: education and asbestos.
For-profit vocational and home-study schools soon will be told by FTC to refund money to pupils who sign up, then decide not to go. For dropouts, a prorated rebate -- all this made possible by the Moss-Magnuson Act of '75.
Asbestos may be banned as a material used in any U.S. consumer product. It's a known cancer-causing agent, and the Consumer Product Safety Commission is poised to rule later this month. May affect simulated fireplace ashes, ceiling decorations, children's modeling clay, roof coatings, other goods.

Back to trade: Carter seems determined to aid lines hurt by imports. How much help is arguable, however -- there is only \$17 million available in adjustment assistance loans and shoe firms alone could soak it up fast.
Carter's planners are working up remedies. A development bank is one. Like the World Bank, it would make hard and soft loans, go beyond adjustment aid, conditional on modernization to boost the industry's competitive footing.

Do highway billboard curbs kill small business? Some claim they do -- that motorists whiz by oblivious of the local services they might patronize.
A Highway Administration Task Force is checking to see how many areas need new directional signs to lead motorists to gas, lodgings, and what-not. Or whether they need additional signs. A steamy topic in many states.

Energy is only one issue facing the post-recess Congress. Others:
Reform of seven regulatory agencies -- including FTC -- to clear up murky language, simplify rules, speed processing. Passage? An even bet.
Toughen Truth-in-Lending? We look for an amendment to decomplicate some of the Act's language, but consumers may still find it hard to fathom.
A National Climate Program to improve weather forecasts via monitoring of climate trends on a longer range basis is proposed. That one will pass. And other, weightier issues too: energy, jobs, taxes and inflation.
For Carter, trying days ahead -- move his programs or lose credibility.

Sincerely yours,


Editor, U.S. News Washington Letter

Vol. 3, No. 15
6:10 p.m., EST